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Cleaning up

When times get tough, many turn to franchises

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The Hamilton Spectator

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Photos by Kaz Novak, the Hamilton Spectator

Cathie Coward, the Hamilton Spectator

Andres Velasquez started a JDI Cleaning Systems franchise because he wanted to make sure he had a steady income to support his medical studies at McMaster.

Less than a year later, the 22-year-old Burlington resident has set aside those studies, and he's now taking a course in business administration at Mohawk with an eye to boosting business.

Joe Imbrogno, one of JDI's franchisors, said he expects to meet a lot of people like Velasquez this year. He and his partner John Simpson started JDI as a franchise business during the last major recession in the 1990s.

They had a hunch that a recession might be a good time to sell franchises. They were right.

"In each of (the) last few downturns, that's when our business picks up," Imbrogno said. "People want to control their own destiny."

For example, last year with the growing economic uncertainty, JDI added 12 more franchises, the most ever in one year. The company now has 63 franchises spread throughout southern Ontario and the GTA.

"Now we're seeing such uptick in people wanting to have their own business, we feel this is going to be a big year for franchises," Imbrogno said.

"Some choose part-time operations," Imbrogno said. "It suits a lot of people who are still working but need to supplement reduced incomes or want to ensure they have an income."

Wayne Maillet, a B.C.-based franchise consultant, said the phone hasn't stopped ringing in the past few weeks.

"There are more people looking out there," he said. "Every day in the newspaper there are layoffs and of those, a small percentage is thinking about starting their own business."

Lorraine McLachlan, president and CEO of the Canadian Franchise Association, said she's hearing the same thing from many members.

"It's a good option in a recession ... in a slow economy," she said. "A lot of people think that it's time to do something different.

"When the economy is strong, they are more likely to get other jobs."

McLachlan said the association is concerned with the banks' apparent reluctance to lend money and the impact it could have on growth.

But she said the federal government's move to increase insurance of bank loans from $250,000 to $500,000 in the last budget should offset that.

"There is a will by the government to make this happen."

There's a lot at stake because franchises provide a business model that is critical to the national economy.

According to the association's figures, franchising accounts for $90 billion per year in sales nationally, or 10 per cent of Canada's GDP, and directly employs more than one million people.

McLachlan said many people associate franchises with quick-service restaurants such as McDonald's or Tim Hortons, but in the last few years franchising has spread to virtually every sector of the economy. Now restaurant franchises only comprise 30 per cent of the association's membership.

Kaz Novak, the Hamilton Spectator

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A recent trends report from the franchise association found the number of beauty and cosmetic supply and business services franchises grew by 44 per cent from 2008 to 2009.

Lori and Rob Jaggers just opened a FastSigns franchise on Rymal Road last month. FastSigns makes all kinds of signage for businesses.

Rob, a former graphic artist and partner in a small graphic arts business in Burlington, was devastated when that business folded two years ago.

"I started looking into franchises as a way to control income and job security," he said. "I didn't want to get into food. It's a lot more overhead, seven days a week and a lot more to organize."

He researched other franchises before settling on FastSigns.

The couple says acquiring a franchise is hugely rewarding, but not all the rewards are immediate, particularly the financial ones.

"It's for the future," Lori said.

Under the FastSigns business model, for example, Rob won't draw a salary for 12 to 18 months -- until the store breaks even.

Lori, who worked as a receptionist before, has transferred her skills to the new business and is able to draw a salary in that position.

In addition, the couple had to shell out travel expenses to go to Dallas, Texas, for training and interviews with no certainty of securing the franchise deal.

As a requirement of that deal, Rob signed up for a comprehensive year-long, business administration program chosen by FastSigns' corporate office, paid for by him.

But on the other hand, that training, online tech support and marketing services, business model and support are invaluable, he said.

Lori said going to the bank to get financing was easier with a proven franchise in the wings.

"The bank was much more inclined to support it because it's a known business model with past experience," she said.

McLachlan says not all franchises require heavy investment.

There are many smaller franchises available for less than $50,000.

Velasquez said it was JDI's lower initial investment, flexible hours and established clientele that drew him to the cleaning franchise.

In addition, a family friend recommended the company.

Velasquez and his family immigrated to Canada from Colombia in 2004, and having a ready-made business was very attractive.

His parents and siblings also work in the business and so far, at least, their success has exceeded expectations. "It started out as a way to fund my studies and now I think I can go way beyond that. Now I'm going for it."

The economic downturn hasn't discouraged the Jaggerses or Velasquez. They say you have to accept the ups and downs in the economy, just like in any small business.

Besides, for FastSigns, at least, there may even be a new market.

"I can't worry about the (recession)," Rob said. "I have to get going and work through it. One thing at least, there may be a demand for more store closing or liquidation signs."

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Franchising expert Wayne Maillet says:

1. Sure bets are brands that are recognizable, but they are often the most expensive. What's important is that the company has leadership, clear vision, goals, values and strong financials. Does it have a significant return on investment? Does the franchise focus on the customer?

2. Talk to other franchisees. Are their franchises strong? Did the work meet their expectations?

3. Ask to see operational models. While some franchises won't be willing to share that much information before signing a deal, they will likely agree to a table of

contents. That will tell you how much support you'll get from the franchisor.

4. Get a sense of the financial commitment you'll be required to make vis-a-vis training and travel costs, fees, etc.

Is franchising for you?

Local franchise owners Rob and Lori Jaggers offer some advice:

1. It's not a quick fix. A franchise is a long-term commitment.

2. Avoid franchises that allow absentee ownership. You will need to be there, no matter what anyone says.

3. Do research. Talk to other franchisees and other franchisors, and research the market, local conditions, etc.

4. Pick something you're passionate about.

5. Visualize yourself in the business. Think of what the day-to-day will be like and make sure it's what you want.

6. Be prepared to take mandatory training. Some will be paid for in the franchise fee, some may not.

7. Know your risk tolerance. Make sure it's something you can handle. If you aren't ready to put it all on the line and give 100 per cent, it may not be for you.

8. Get used to the Big Brother approach and make sure you like the franchisor's management style. Make sure the dynamic works for you, and find that team you know you won't mind calling you or checking on your sales figures.

9. It's still your business. Like any small business, you need your family's support, even on the days when you're not home till midnight.

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